

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 EUR-12 FEA-01 ERDA-05 AID-05
CEA-01 CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01
INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04
USIA-06 OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07
/109 W

-----070454Z 044275 /14

R 061000Z MAY 77
FM AMEMBASSY BANGKOK
TO SECSTATE WASHDC 1836
INFO AMEMBASSY JAKARTA
AMEMBASSY KUALA LUMPUR
AMEMBASSY SINGAPORE

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E.O. 11652: N/A
TAGS: ENRG, TH
SUBJ: APPARENT SETBACK IN NATURAL GAS PROJECT

REF: BANGKOK 1939

1. WILLIAM GREENWALT, UNION OIL CO. V-P FOR THAILAND
OPERATIONS, INFORMED AMBASSADOR MAY 4 THAT MINISTRY OF
INDUSTRY, AFTER EXHAUSTIVE STUDY OF SUBJECT, HAS OFFERED
TO UNION NATURAL GAS PRICE SO LOW AS TO RAISE SERIOUS
DOUBTS THAT GAS FIELDS IN GULF OF SIAM CAN BE DEVELOPED
COMMERCIALY.

2. GREENWALT ATTRIBUTED RTG'S PROPOSED PRICE -- ABOUT
ONE-THIRD THAT SOUGHT BY UNION -- TO MACHINATIONS OF
BRITISH GAS CORPORATION WHICH RTG HAS RETAINED AS
CONSULTANT IN PRICE TALKS WITH UNION.

3. PRICE COMPARISONS ARE:
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UNION'S PROPOSAL TRANSPORTATION BANGKOK LANDED
OF MAY 1977 PRICE

\$1.55/MMBTU -- \$9.61/GGL PLUS \$2.48 \$12.09
(RTG'S COST OF FUEL OIL EX-REFINER- \$12.71)
RTG'S PROPOSED PRICE

\$.50/MMBTU -- \$3.10/BBL PLUS \$2.48 - \$5.58

FOREGOING, ACCORDING UNION, EXPRESSED IN EQUIVALENT FUEL OIL ENERGY/BBL (6.2 MMBTU OF GAS HAS HEATING VALUE OF ONE BARRELL OF FUEL OIL).

4. ALTHOUGH GAP IN FOREGOING PROPOSAL MIGHT APPEAR UNBRIDGEABLE, GREENWALT ADMITTED HE WAS NOT YET AWARE OF CONDITONS AND/OR ASSUMPTIONS ON WHICH RTG PRICE FORMULA IS BASED. HE DID SAY THAT RTG OFFICIALS HAD PREVIOUSLY DISCUSSED FORMULA WHICH WOULD EXEMPT UNION FROM TAX AND ROYALTY PAYMENTS TO RTG AND THUS LOWER COST OF FUEL SUPPLIED TO MARKET IN BANGKOK. HE SAID UNION RESISTED THIS FORMULA, WHICH WOULD IN FACT BE RTG SUBSIDY TO BANGKOK MARKET, FOR FEAR IT WOULD LEAVE UNION EXPOSED POLITICALLY AS FOREIGN FIRM NOT PAYING FAIR SAHRE OF TAXES TO RTG. NONETHELESS, UNION HAS COSTED OUT ORIGINAL JUNE 1976 PRICE PROPOSAL TO RTG (BUT NOT YET FOR MAY 1977 PRICE CITED ABOVE) LESS ROYALTY AND INCOME TAX PAYMENTS, AS FOLLOWS:

UNION'S JUNE 1976 PROPOSAL	TRANSPORTATION BANGKOK LANDED PRICE
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\$1.64/MMBTU -- \$10.17/BBL PLUS \$2.48 -- \$12.65	
LESS ROYALTY AND INCOME TAXES	
\$.85/MMBTU -- \$5.27/BBL PLUS \$2.48 -- \$7.75	

IF THAI ARE STILL THINKING IN TERMS OF TAX AND ROYALTY LIMITED OFFICIAL USE

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EXEMPTIONS, GAP BETWEEN UNION AND RTG PRICE PROPOSALS IS FAR LESS EXTREME THAN WOULD APPEAR IN PARA 3. WE WILL, OF COURSE, TRY ASCERTAIN FACTS OF CASE ASAP.

5. IN CONVERSATION WITH AMBASSADOR, GREENWALT, MOURNFUL BY NATURE, WAS CLEARLY DEPRESSED BY RTG PRICE PROPOSAL, AND OPINED THAT IF RTG REMAINS FIRM, "THERE WILL NEVER BE ANOTHER WELL DRILLED IN THAI WATERS." HIS REACTION WAS MAGNIFIED BY FACT THAT UNION OIL CO. CHAIRMAN FRED HARTLEY VISITED BANGKOK MAY 2-4, AND HAD AMICABLE 40-MINUTE TALK WITH PRIME MINISTER ABOUT GAS PROJECT ON MORNING MAY 2. THEN ON EARLY MORNING MAY 4, WHEN HARTLEY WAS PREPARING TO CATCH FLIGHT FOR SINGAPORE, RTG OFFICIAL INFORMED GREENWALT BY TELEPHONE OF RTG PRICE PROPOSAL. HARTLEY SUBSEQUENTLY TELEPHONED PRIME MINISTER FROM SINGAPORE TO COMPLAIN ABOUT LOW PRICE OFFERED, BUT PRIME MINISTER REPORTEDLY SAID HE WAS NOT INFORMED AS TO DETAILS OF PROJECT AND WOULD HAVE TO RELY ON HIS STAFF FOR ADVICE.

6. HOPEFULLY PROSPECTS ARE LESS GLOOMY THAN GREENWALT SEES THEM. HE BELIEVES CABAL OF MIDDLE GRADE OFFICERS, INCLUDING TWO HIGHLY ABLE MEN IN MINISTRIES OF INDUSTRY AND FINANCE, HAVE INFLUENCED RTG PRICE PROPOSAL IN EFFORT TO SABOTAGE PROJECT TEMPORARILY. THEIR LONG-TERM OBJECTIVE, HE BELIEVES, IS TO HAVE RESPONSIBILITY FOR PROJECT TRANSFERRED TO FUEL OIL ORGANIZATION OF MINISTRY OF DEFENSE.

7. IN A LAST MINUTE UPDATE AT NOON MAY 6 GREENWALT REPORTED DR. CHALAN, EXECUTIVE DIRECTOR OF THE NATURAL GAS ORGANIZATION OF THAILAND (NGOT), HAD CONFIDED A FEW MINUTES EARLIER THAT NGOT SUB-COMMITTEE DEALING WITH GAS PRICING PROBLEM WAS HAVING SECOND THOUGHTS ABOUT BRITISH GAS RECOMMENDATION. THEY WERE NOW CONSIDERING REQUESTING FRANK PACE OF INTERNATIONAL EXECUTIVE SERVICE LIMITED OFFICIAL USE

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CORPS TO ARRANGE FOR AN INDEPENDENT REVIEW OF THE GAS PRICE PROBLEM. GREENWALT INDICATED HE NOW SEES A GLIMMER OF HOPE THAT THE THAI RECOGNIZE THE BRITISH PRICE RECOMMENDATION IS UNREALISTIC. WHILE THIS DRAMA UNFOLDS GREENWALT CONTENDED HE DID NOT WISH ANY HELP FROM THE EMBASSY AT THIS POINT AND BELIEVED THE DIFFICULTIES IN REACHING AN AGREEMENT SHOULD BE CLOSELY HELD. WHITEHOUSE

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